

## **South Carolina Domestic Insurers and HMOs Only**

### **Comprehensive Quarterly Analysis Instructions**

1. Generally, the narrative shall be of the reporting periods covered by the quarterly statement and shall use current statement date to prior year end comparisons of items reported on the Assets and Liabilities pages and current year-to-date to prior year-to-date comparisons of items reported on the Statement of Income page, or any other formats that, in the company's judgment, enhance the analyst's understanding of its financial condition. However, where trend information is relevant, reference to the other exhibits or schedules of the quarterly statement may be necessary. Where in the company's judgment a narrative of lines of business or groups of lines would be appropriate to an understanding of the company's business, the narrative may focus on each relevant grouping. The term "material change" when used hereinafter is defined in Number 9 of these instructions.
2. Where the financial statements reveal material changes from year-to-year or quarter-to-quarter in one or more line items, the causes for the changes shall be described to the extent necessary to provide an understanding of the company's business or operations and reference to the exhibits or schedules of the quarterly statement shall be incorporated where deemed appropriate by the company. If the causes for a change in one line item also relate to other line items, no repetition is required on a line-by-line analysis of the financial statements. The company need not recite the amounts of changes from year-to-year or quarter-to-quarter, which are readily computable from the financial statements. The narrative shall not merely repeat numerical data contained in the quarterly statement or in schedules or exhibits to the quarterly statement.
3. The narrative and analysis shall also focus specifically on material events known to management that would cause reported financial information not to be necessarily indicative of future operating results or of future financial position (i.e., the occurrence of a recent catastrophe). This would include descriptions and amounts of: (i) matters that would have an impact on future operations and have not had an impact in the past, and (ii) matters that have had an impact on reported operations and are not expected to have an impact upon future operations.
4. The company's narrative and analysis shall be of the financial statements and other exhibits or schedules of the quarterly statement deemed appropriate by the company that enables analyst to enhance their understanding of the company's financial condition. The narrative shall provide the analyst with information that is relevant to an assessment of solvency, financial position, results of operations, cash flow, and trends in the amounts of capital and surplus. The information provided need only include that which is available to the company with expense and diligence as required for the completion of the other parts of the quarterly statement and generally would include the following:

#### **A. Financial Position**

##### **i. Assets**

Discuss material changes in the company's invested asset mix and quality distribution. This narrative shall identify the impact, if any, those changes have on the company's liquidity relative to current and future operational needs. Discuss any material changes in other asset categories (e.g., agents' balances, reinsurance recoverables, amounts due from affiliated companies, etc.).

ii. Liabilities

Discuss the adequacy of the company's policy or loss reserves and describe any material changes. Comment on any other liability categories having material changes (e.g., expense liability, balances due affiliated companies, unauthorized reinsurance liability, etc.).

iii. Capital and Surplus Accounts

Identify and describe any known material trends, favorable or unfavorable, in the company's capital and surplus accounts. If a material unfavorable trend exists, indicate the courses of remedial action available to the company and the potential effects of each.

B. Results of Operations

- i. Describe any unusual or infrequent events or transactions or any significant changes that materially affected the amount of reported income from continuing operations and, where possible, indicate the extent to which income was so affected. In addition, describe any other significant components of revenues or expenses that in the company's judgment, should be discussed in order to understand the company's results of operation.
- ii. Describe any known trends that have had or that the company reasonably expects will have a material favorable or unfavorable impact on the net revenues or net income. If the company knows of events that will cause a material change in the relationship between benefits, losses and expenses, the change in the relationship shall be disclosed.
- iii. To the extent that the financial statements disclose material increases in net revenues, provide a narrative of the extent to which such increases are attributable to price or inflation increases or to increases in the volume of services being sold or to the introduction of new services.

C. Cash Flow and Liquidity

- i. Indicate those balance sheet conditions or income or cash flow items that the company believes may be indicators of its current liquidity condition. The term "liquidity" as used herein refers to the ability of the company to generate adequate amounts of cash to meet the company's current needs for cash.
- ii. Identify and describe sources of cash flow and briefly discuss any material unused sources of liquid assets. Identify any known demands or events that will result in or that are reasonably likely to result in the company's cash flow increasing or decreasing in any material way. Describe the material changes and, where possible, indicate what remedial courses of action are available to the company along with the potential effects of each.
- iii. Describe the company's material commitments for capital expenditures as of the end of the latest fiscal period, and indicate the general purpose of such commitments and the anticipated source of funds needed to fulfill such commitments. This narrative shall consider material changes between equity, debt and any off-balance sheet financing arrangements.

5. The company shall provide a narrative of any changes in the company's investment strategy, claims and reserving practices, underwriting and marketing strategies, and reinsurance program.
6. The company shall provide forward-looking information concerning challenges, trends, demands, commitments or events which: (i) are likely to occur, and (ii) are likely to have a material impact upon the company.

The company may disclaim any responsibility for the accuracy of such information provided that the company supplied such information in good faith.

7. The company is required to prepare the CQA on a non-consolidated basis, unless the company is part of a consolidated group of companies that utilizes a pooling arrangement or one hundred percent reinsurance agreement that affects the solvency and integrity of the company's reserves and such company ceded substantially all of its direct and assumed business to the pool.

If a group of insurance companies prepare the CQA on a consolidated basis, the narrative shall identify and discuss significant differences between companies (e.g., investment mix, leverage, liquidity, etc.).

8. A CQA checklist (see attached) shall be completed and submitted along with the CQA to ensure its completeness.
9. A "material" change is defined as:

An individual asset category for which the current or prior year-end balance was greater than five percent of total admitted assets and which changed by more than +/- twenty percent from the prior year end.

An individual liability category for which the current or prior year-end balance was greater than five percent of total liabilities which changed by more than +/- twenty percent from the prior year end.

An individual income statement line item that was more than five percent of policyholders' surplus for the current or prior year-to-date and which changed by more than +/- twenty percent from the prior year to date.

Net income (loss) which exceeds five percent of policyholders' surplus and which has changed by more than +/- twenty percent from the prior year-to-date for a property and casualty company or more than +/- forty percent/-twenty percent from the prior year-to-date for a life/accident and health company.

Policyholders' surplus which has increased by more than twenty-five percent or decreased by more than fifteen percent from the prior year end (P&C). Policyholders' surplus which has changed by more than +/- twenty percent from the prior year end (Life, A&H). Policyholders' surplus which has decreased by more than ten percent or increased by more than forty percent from the prior year end (Health).

## Comprehensive Quarterly Analysis Checklist

**Note: An explanation is required for all “No” responses to this checklist.**

1. Does the Comprehensive Quarterly Analysis prepared in accordance with the instructions provided include the following overall content:
  - a. Discussion of the current statement date to prior year comparisons of items reported on the Assets and Liabilities pages and current year-to-date to prior year-to-date comparisons of items reported on the Statement of Income?

☐ Yes      ☐ No
  - b. Reference to other exhibits or schedules where trend information is relevant?

☐ Yes      ☐ No      ☐ N/A
  - c. Description of the **causes** of material changes in financial statement line items?

☐ Yes      ☐ No      ☐ N/A
  - d. Discussion of material events known to management that would cause reported financial information not to be necessarily indicative of future operating results or of future financial position?

☐ Yes      ☐ No      ☐ N/A
2. Does the Comprehensive Quarterly Analysis include a discussion of the following specific financial statement items:
  - a. Regarding the company’s financial position:
    - i. Discussion of material changes in the company’s invested asset mix and quality distribution?

☐ Yes      ☐ No      ☐ N/A
    - ii. Identification of the impact, if any, the changes described in 2.a.i. above have on the company’s liquidity relative to current and future operational needs.

☐ Yes      ☐ No      ☐ N/A
    - iii. Discussion of material changes in other asset categories (i.e., agents’ balances, reinsurance recoverables, amounts due from affiliated companies)?

☐ Yes      ☐ No      ☐ N/A

- iv. Discussion of the adequacy of the company's loss reserves and a description of any material changes?

☐ Yes      ☐ No      ☐ N/A

- v. Discussion of material changes in other liability categories (i.e., expense liability, balances due affiliated companies, unauthorized reinsurance liability?)

☐ Yes      ☐ No      ☐ N/A

- vi. Description of any known material trends, favorable or unfavorable, in the company's capital and surplus?

☐ Yes      ☐ No      ☐ N/A

- vii. Description of the courses of remedial action available to the company, and the potential effects of each, where a material unfavorable trend exists?

☐ Yes      ☐ No      ☐ N/A

- b. Regarding the company's results of operations:

- i. Description of any unusual events or significant changes that materially affected the amount of reported income from continuing operations and the extent to which income was so affected?

☐ Yes      ☐ No      ☐ N/A

- ii. Description of any other significant components of revenues or expenses that in the company's judgment, should be discussed in order to understand the company's results of operation?

☐ Yes      ☐ No      ☐ N/A

- iii. Description of any known trends that have had or are expected to have a material favorable or unfavorable impact on net revenues or net income?

☐ Yes      ☐ No      ☐ N/A

- iv. Description of the extent to which material increases in net revenues are attributable to price or inflation increases, or to the volume of services sold, or to the introduction of new services?

☐ Yes      ☐ No      ☐ N/A

- c. Regarding the company's cash flow and liquidity:

- i. Indication of those balance sheet conditions or income or cash flow items, which the company believes, may be indicators of its current liquidity condition?

☐ Yes      ☐ No      ☐ N/A

ii. Description of sources of cash flow?

☐ Yes ☐ No

iii. Discussion of any material unused sources of liquid assets?

☐ Yes ☐ No ☐ N/A

iv. Discussion of any known demands or events that are reasonably likely to result in material increases or decreases in the company's cash flow?

☐ Yes ☐ No ☐ N/A

v. For any events described in 2.c.iv. above, an indication of the remedial courses of action available to the company, along with the potential effects of each?

☐ Yes ☐ No ☐ N/A

vi. Description of the company's material commitments for capital expenditures, including the general purpose of such commitments and the anticipated source of funds needed to fulfill such commitments?

☐ Yes ☐ No ☐ N/A

3. Regarding forward-looking information; does the Comprehensive Quarterly Analysis include information concerning trends, demands, commitments or events that are likely to occur, and have a material impact upon the company?

☐ Yes ☐ No ☐ N/A

4. Was the Comprehensive Quarterly Analysis prepared on a non-consolidated basis?

☐ Yes ☐ No ☐ N/A

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**Prepared by:**

**Name:** \_\_\_\_\_

**Title:** \_\_\_\_\_

**Phone:** \_\_\_\_\_

**E-mail:** \_\_\_\_\_

**Date:** \_\_\_\_\_